



Malartic
Hygrade
Gold Mines
(Canada) Ltd.

Annual Report
1977

FIN





Malartic
Hygrade
Gold Mines
(Canada) Ltd.

Officers

J.S. Belton	President
H. Peter Jarvis	Vice-President
Hyman S. Goldstein	Secretary-Treasurer

Directors

J.S. Belton	London, England
Hyman S. Goldstein	Toronto, Canada
Gerard Lanthier	Montreal, Canada
H. Peter Jarvis	Toronto, Canada

Registrar and Transfer Agents

Metropolitan Trust Company
Toronto, Ontario

Auditors

Johnson, Rickard & Co.,
Toronto, Ontario, Canada

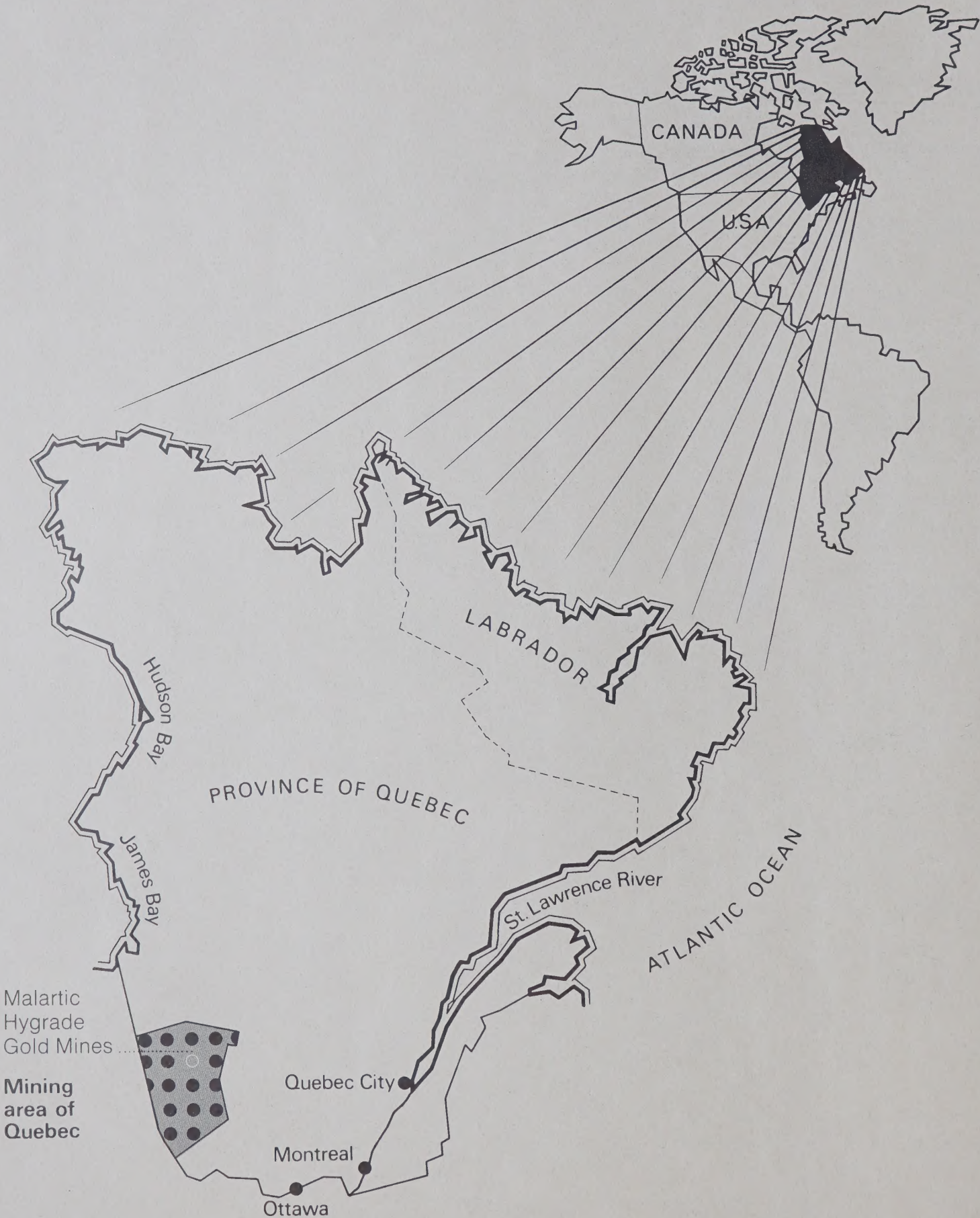
Head Office

Suite 600
55 University Avenue,
Toronto, Ontario, Canada

Bankers

Royal Bank of Canada,
20 King St., West,
Toronto, Canada

Mining Area



To the Shareholders



Malartic
Hygrade
Gold Mines
(Canada) Ltd.

Your Directors herewith submit their Annual Report for the year ending September 30, 1977, together with the audited Financial Statements for the period.

The year has seen significant developments indicating the increasing attention being paid to your company's property in the Province of Quebec adjacent to operations of Camflo Mines Limited. Camflo has mined to the boundary where the porphyry orebody crosses onto the Malartic Hygrade property, and Camflo agents made two attempts to extend operations onto your property. One was a take-over bid to gain 51 per cent of outstanding Malartic Hygrade shares, and this was followed by a meeting requested by Camflo Directors at which a further proposal was made for an agreement to mine Malartic Hygrade ore. Both attempts were rejected by your Directors on the grounds, that the takeover offer of (Cdn.) 75 cents per share was ridiculous, as well as being illegal, and that the proposal subsequently received from Camflo Directors failed to meet the safeguards against mining abuse which your Directors consider essential to any agreement which would permit Camflo to mine the extension of the orebody located on your property vital to the future of Camflo.

This attempt by Camflo Directors to re-open negotiations for an agreement was couched in the same bad faith which caused your company to terminate negotiations for a similar kind of an agreement in mid 1974. While Camflo has met the terms of a counter proposal made by your company, including a 60-40 division of profits in favour of Malartic Hygrade, its Directors have again refused to agree to effective controls in the mining operations being contemplated by Camflo on your property. Your Directors cannot agree to any proposal which would allow Camflo to exploit an underground situation on Malartic Hygrade property in a manner which could affect the interests of our shareholders detrimentally. Camflo Directors have proved that their intentions are not to be trusted as, once again, clearly indicated in the exchange of correspondence which followed the meeting held on May 31, 1977.

The experience with the Camflo organization over the years makes it imperative that Camflo be treated merely as a contractor to mine Malartic Hygrade ore on the basis of the division of profits

agreed to after all mining costs are met. The Camflo mining facility remains, in the view of your Directors and the company's engineering consultants, the logical facility to do the job, but Malartic Hygrade must remain master in its own house, otherwise your Directors would be unable to protect the interests of Malartic Hygrade shareholders. An agreement, as publically stated by Camflo, would likely add 15 years to the lifetime of the Camflo mining operations which now face, also admitted, contraction and the release of good miners. If the intentions of Camflo were honourable, then its Directors have nothing to fear from the safeguards against abuse proposed by your company.

To date, Camflo Directors continue their behind-the-scenes manipulations to force your company to capitulate to an unacceptable agreement, and to disguise their hand in bringing pressure to bear on your Directors. The take-over bid in January from a Toronto lawyer, Mr. Harold Murphy, was indicative of Camflo methods in that the Murphy offer was screened, from the view of the majority in number of Malartic Hygrade shareholders. The Murphy offer was made only to banks holding large blocks of shares which in turn, acting as Murphy's agent, circulated it to a large number of shareholders (more than 15) and therefore the offer contravened the take-over laws of the Province of Ontario. When publically exposed by your Directors, the offer was withdrawn but, significantly, no action was taken against Mr. Murphy and/or Camflo by the Ontario Securities Commission. Thus, once again, O.S.C. officials were seen to protect those who mount an attack on your company. It has been apparent for some time that Camflo principals and agents enjoy immunity to do and say what they please while these same officials continue to harrass and abuse your company to advance the interests of one company at the expense of another.

The most recent example of the treatment meted out to your company was the censorship in September, 1977, of publication of trading statistics of Malartic Hygrade shares in the daily press on the orders of Mr. Harold Bray, Vice Chairman of the Commission, despite the fact that your company's shares are legally free to trade in Ontario and that such trading statistics were being reported in the daily press prior to September. Nothing occurred to cause this unwarranted action by officials under Mr. Bray's

direction. On the contrary, Mr. Bray admitted under oath at a Public Hearing on April 7, 1977, that neither your company, nor its associated company, Twentieth Century Explorations Inc., had broken any laws of the Province of Ontario. This censorship, practiced by Mr. Bray and his officials, contrary to the practice of a free and open market in securities, was not the first such occurrence as far as your company is concerned. Publication of trading statistics was intermittently censored on successive occasions over the past three years while the shares were legally free to trade. This collusion between the Bray officials and Ontario brokers whom they intimidate is part and parcel of the exercise of an illegal embargo against the trading of Malartic Hygrade shares, and of the conspiracy to damage your company which is the subject of our Submissions to the Ontario Government.

This company's Submissions to the Ontario Government document a prima facie case of misconduct by regulatory officials to no one's benefit except Camflo Mines Limited, and call for a Government enquiry into both the actions of the Commission and Camflo Mines Limited, for public mis-statements of fact and improper attempts to cover up irregularities amounting to a conspiracy to defraud our shareholders of their rightful interests. While further stating under oath on April 7, 1977, that "nobody said there was anything wrong" with your company or Twentieth Century Explorations Inc., Mr. Bray attempted to cover up the misconduct and false allegations of his own officials against your company in 1975 which led to a Public Hearing at which the allegations were withdrawn and the company cleared of any wrong-doing. This was followed by a further Public Hearing in 1976-77 at which Mr. Bray's officials again attacked the company with allegations which were again found to have no foundation in fact. Despite this, the Commission issued an order infringing retroactively on the legal contractual rights of your company's debentureholders.

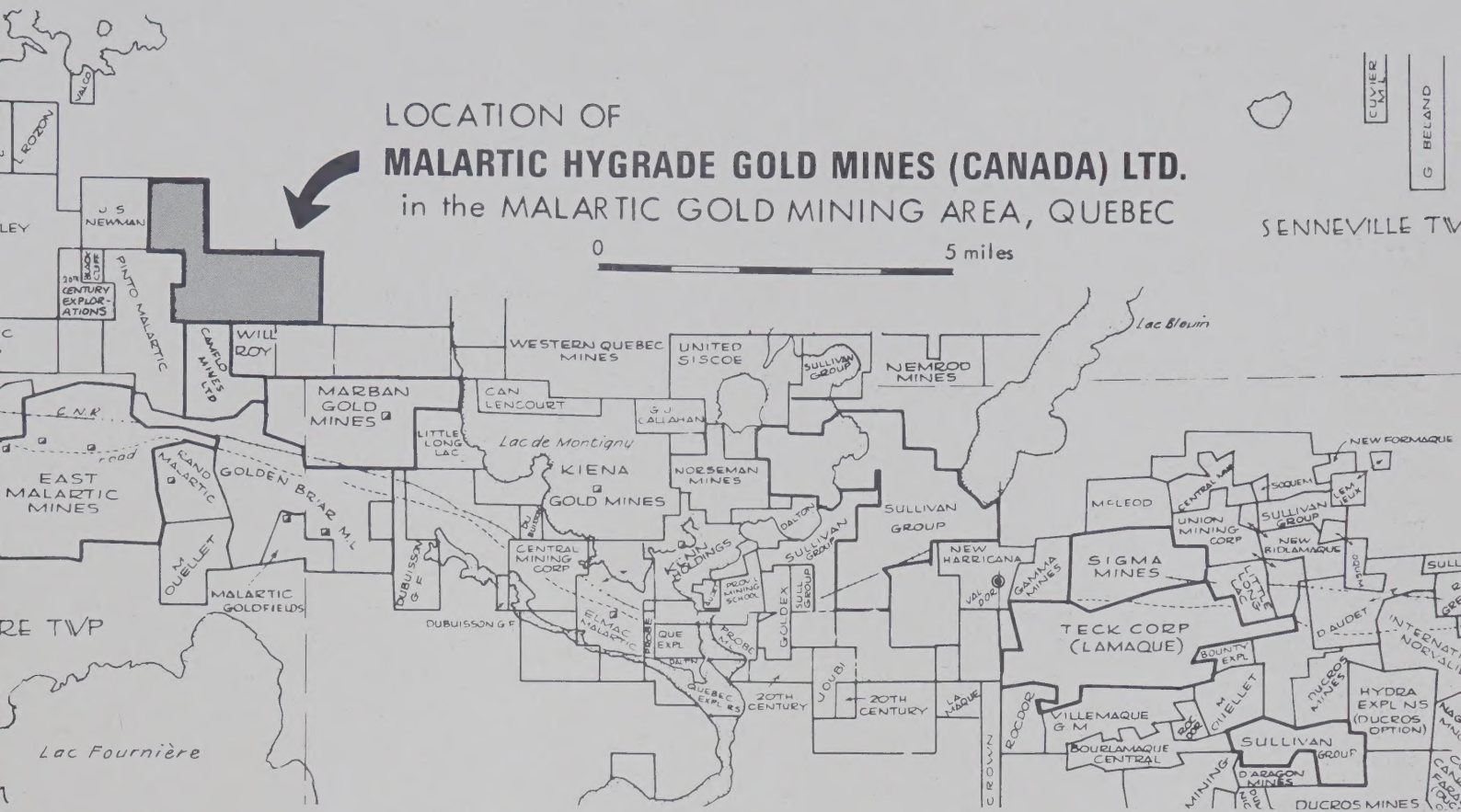
As a result of the continuous unwarranted harassment of your company by Mr. Bray and his officials and finally the illegal infringement upon the rights of the debentureholders and other investors, investor confidence in your company and the integrity of regulatory officials reached a low point in January, 1977. The enormous damage done to your company and its own plans to develop its property in Malartic Township, Quebec, necessitated that new financing be arranged to secure the company's future. The debenture financing which had so elevated the company's position in 1974 was soon to become a current liability. In the absence of new financing the company would be unable to meet its obligations when due. Accordingly, your

Directors decided unanimously to sell 600,000 (six hundred thousand) shares to The Royal Bank of Canada at one dollar per share and to redeem the whole of the debenture issue, since there was then little, if any, prospect, in the aftermath of the events of the first half of 1977, of the debentures being converted in sufficient amount to reduce the company's impending liability to manageable proportions, prior to the due date. The effect of this decision was to eliminate the company's debt and leave it with a working capital in excess of \$300,000. This decision was made to protect the company from the inevitable consequences of being unable to repay the debenture, due early next year, as a result of the actions of regulatory officials in deliberately and repeatedly attacking your company for the benefit of Camflo Mines Limited.

The object of the conspiracy against your company has been to destroy investor and shareholder confidence and thus either pave the way for a Camflo take-over of your company at a depressed price for your shares or, alternatively, throw it into bankruptcy. The first of these offers, exactly as forecast by your company in its Submission to the Ontario Government, was made for Camflo by Harold J. Murphy at 75 cents per share. (Directors have advised shareholders to be alert for other illegal offers.) As for the prospect of bankruptcy, which is the alternative Camflo plan for your company, as implied by the Northern Miner Press in June of 1977, this has now been averted.

The conspiracy against your company, now coming to a head in Ontario, was instigated by officials of the Quebec Securities Commission in 1974 when your company was a Quebec corporation. These officials, spearheaded by one Carl Mercier, sought at that time to force your company into an unacceptable "deal" with Camflo. When your company protested this coercion to the Quebec Government, those officials retaliated by suspending trading of Malartic Hygrade shares in the Province of Quebec, although they remained legally free to trade in the Province of Ontario. By a unanimous decision of shareholders, your company moved to the Province of Ontario to protect its interests against Quebec officials improperly pressuring for the Camflo cause. Mr. Mercier then conspired with officials of the Ontario Securities Commission to mount a continuing attack and went so far as to write a number of our shareholders alleging wrong-doing of a criminal nature, despite findings to the contrary of Ontario officials. This highly improper conduct of Mr. Mercier, now in league with officials of the Ontario Commission under Mr. Bray's direction, has not only been reported by your company to the Ontario Govern-

Location



ment for investigation, but also to the Royal Canadian Mounted Police responsible for investigating activities of a conspiratorial nature, and your company has received the assurance of the RCMP of co-operation in an investigation of the conspiracy involving the activities of Mr. Mercier and other officials of both the Quebec and Ontario Commissions and all pertinent information has been turned over to the RCMP by the President of your Company. The role of officials of Camflo Mines Limited is relevant to this investigation, and the solicitors for your company who would co-operate with both the Ontario Government and the RCMP have been so advised.

While the Ontario Government has yet to order a ministerial investigation, the Office of the Ombudsman in Ontario has served a Notice of Investigation on the Ontario Securities Commission as a result of the reference to the Ombudsman by a Member of the Ontario Legislature, of our Submissions to the Government documenting the prima facie case of misconduct by Commission officials in league with Mr. Mercier et al in Quebec. Such misconduct includes not only the making of false allegations against your company but also intimidation by Mr. Bray and his officials, and a physical assault on a solicitor for your company by the OSC Chairman, Mr. Arthur Pattillo, who has since resigned.

In our reports to shareholders, your Directors have attempted to deal fully with these matters of

great concern to the future of the company. The ongoing corporate struggle with Camflo Mines Limited in which key regulatory officials in Ontario and Quebec have involved themselves, stems solely from the fact that the balance of the ore deposit which Camflo has mined to our common boundary lies on your company's property. So far the Camflo Directors have refused to recognize the reality of the situation in which they find themselves, while continuing to bring pressure on your company, directly and indirectly. During the course of defending your interests, Directors of your company have progressively achieved acceptance of all of the main terms of its standing proposal to Camflo for an agreement to mine Malartic Hygrade ore. It remains only for Camflo to agree to the safeguards against abuse without which your Directors believe it would be folly on the part of your company to proceed.

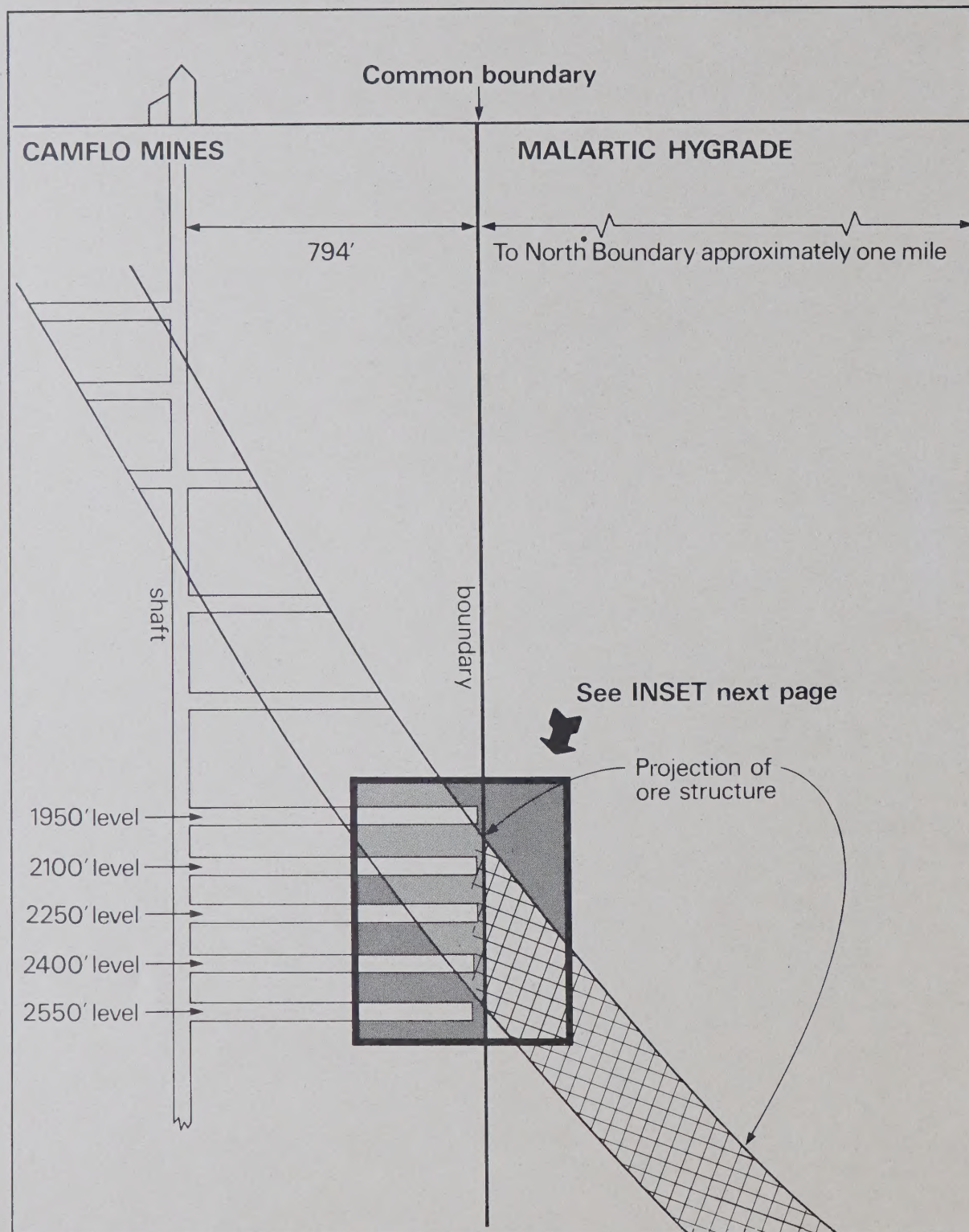
On behalf of the Board of Directors,

On behalf of
the Board of Directors,

J.S. Belton, President

Vertical Cross Section

(Reproduced from the 1974 Annual Report and compiled by the Management of the Company based on information obtained by surveys and on other available data.)

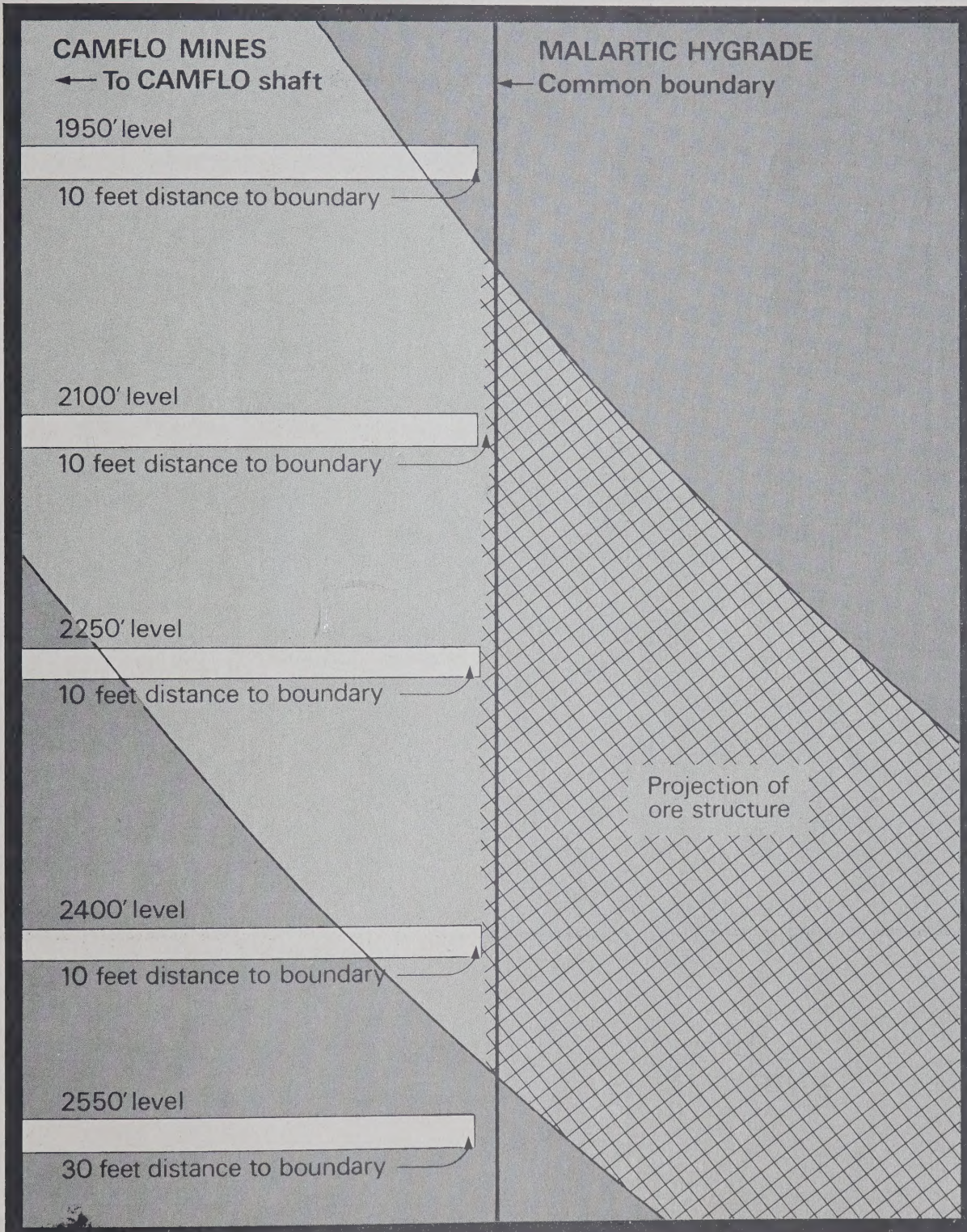


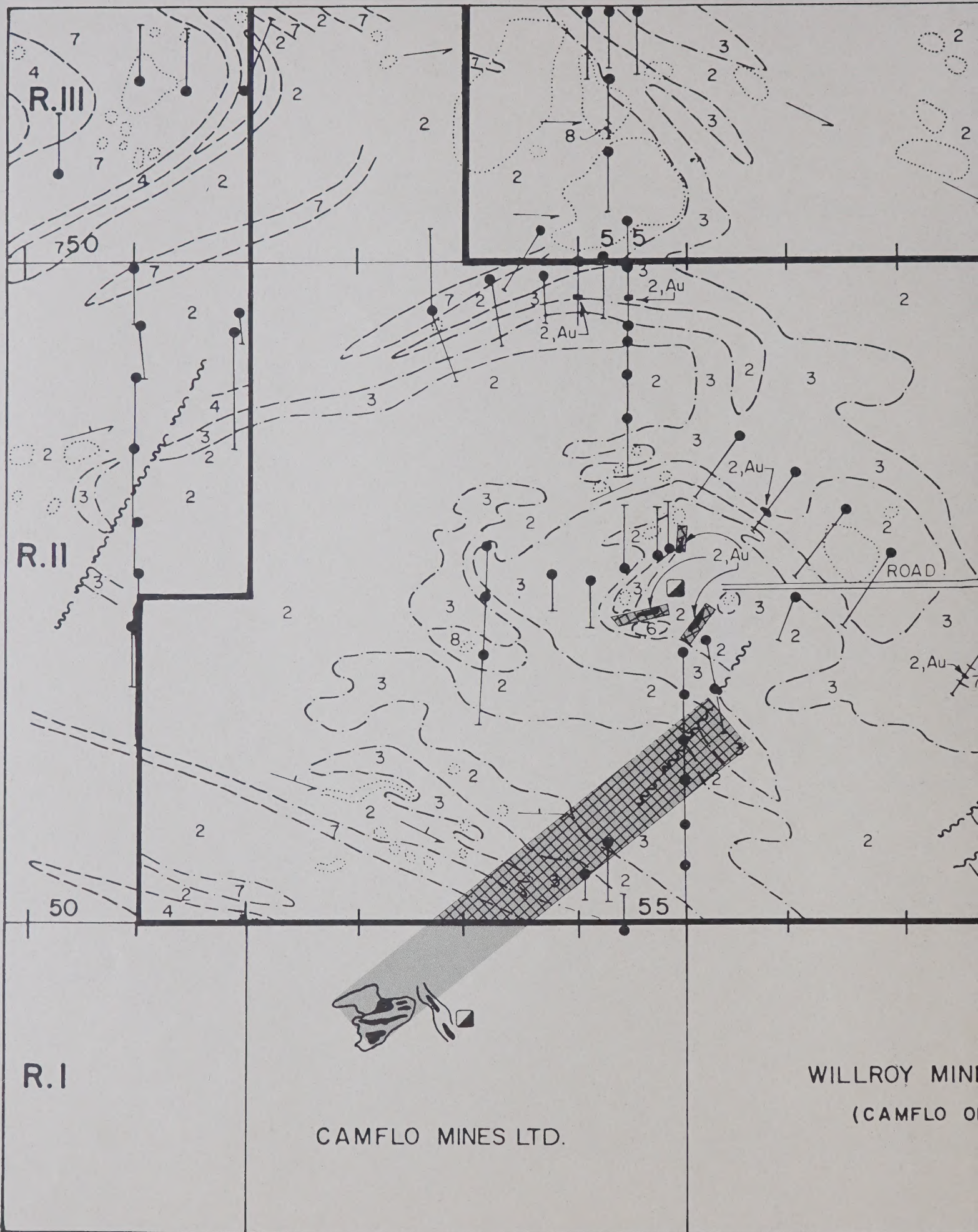
Inset-Vertical Cross Section

(Reproduced from the 1974 Annual Report and compiled by the Management of the Company based on information obtained by surveys and on other available data.)



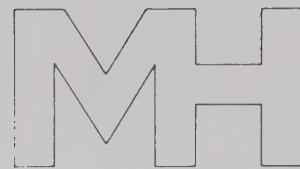
Malartic
Hygrade
Gold Mines
(Canada) Ltd.







(Reproduced from the 1974 Annual Report and compiled by the Management of the Company based on information obtained by surveys and on other available data.)



Geological Map

Malartic
Hygrade
Gold Mines
(Canada) Ltd.
and
adjacent properties
in Malartic Township,
Quebec



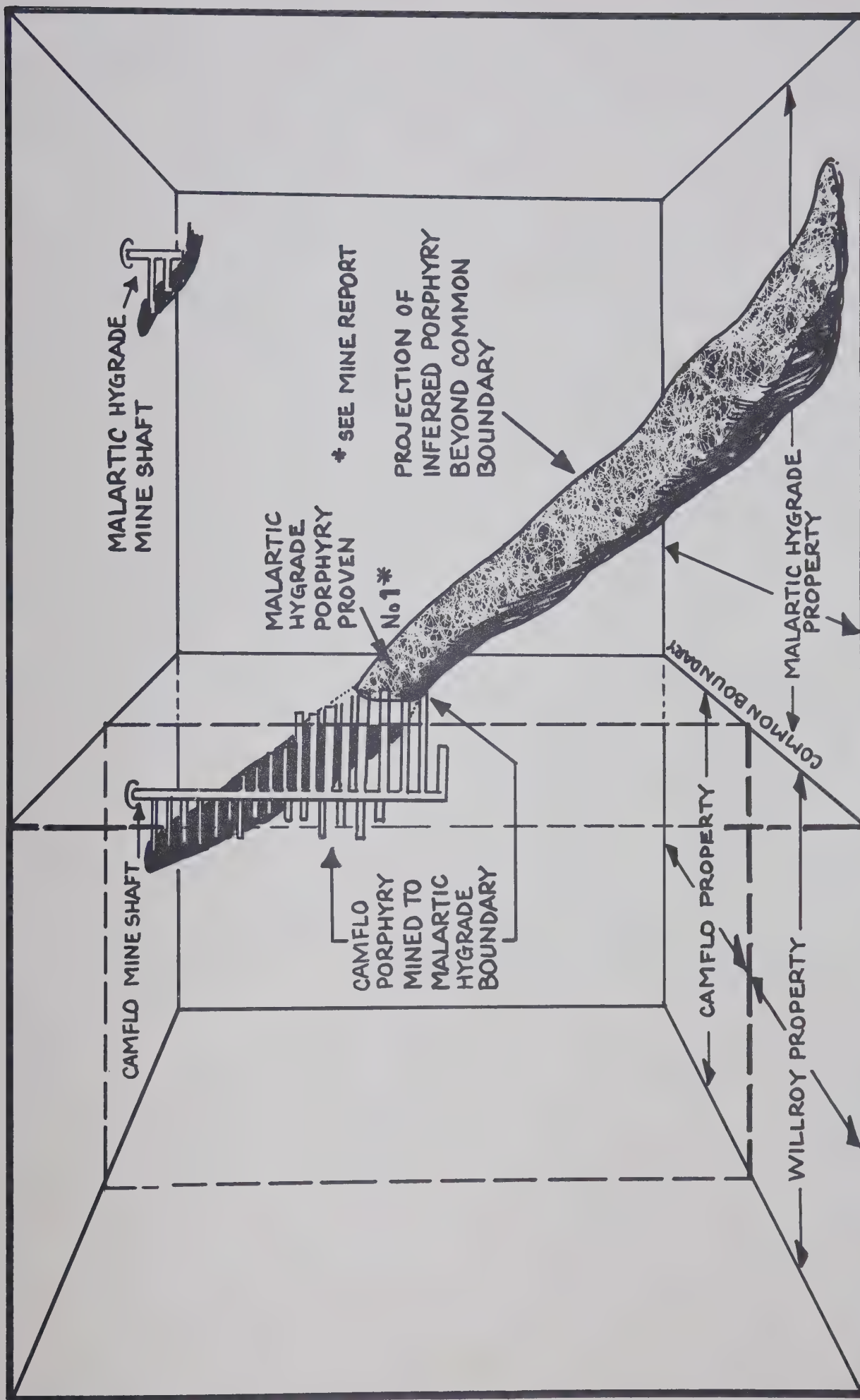
Scale in feet

Date: September 1974

Legend

- 2. Volcanic Flows — Andesite
- 3. Volcanic Flows Ultra Basic
- 4. Tuffs
- 5. Syenite
- 6. Granodiorite
- 7. Diorite
- 8. Feldspar Porphyry
- 9. Sediments
- ~ Shear or Fault Zone
- ▨ Projected Gold Zone
- Gold Zone
- ▣ Shaft
- Drill Hole
- Au Commercial Grade Gold Values

Information based on
data from Mining
Companies and Gov-
ernment Publications



LONGITUDINAL PROJECTION LOOKING WEST (ARTIST'S IMPRESSION)

Auditors' Report

To the Shareholders of
Malartic Hygrade Gold Mines (Canada) Ltd.

We have examined the balance sheet of Malartic Hygrade Gold Mines (Canada) Ltd. as at September 30th, 1977, and the statements of deficit, deferred expenditures and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As set out in Note 1 (c), mining properties and licences and deferred expenditures are carried on a cost basis. The recovery of these costs is dependent on various development projects, the success of which cannot be forecast at this time.

In our opinion, subject to the ultimate realization of the above noted costs, these financial statements present fairly the financial position of the company as at September 30, 1977, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 1976 comparative figures have been reported upon by other auditors.

Toronto, Ontario
October 24, 1977

Johnson, Rickard & Co.,
Chartered Accountants.

Balance Sheet

As at September 30, 1977

Assets	<u>1977</u>	<u>1976</u>
Current		
Cash	\$ 16,602	\$ 4,575
Accounts receivable	14,620	13,011
Accrued interest receivable	12,792	25,792
Prepaid expenses	4,566	11,684
	<u>48,580</u>	<u>55,062</u>
Investments		
Government of Canada Bonds (Note 2)	<u>329,363</u>	<u>1,012,475</u>
Fixed Assets (Note 3)	<u>1,137,068</u>	<u>1,137,068</u>
Mining Properties and Licences (Note 4)		
Malartic Township, P.Q.	1,758,500	1,758,500
Dasserat Township, P.Q.	—	1
Montbeillard Township, P.Q.	—	1
Poirier Township, P.Q.	—	1,001
	<u>1,758,500</u>	<u>1,759,503</u>
Deferred Expenditures	<u>823,946</u>	<u>858,108</u>
	<u>\$4,097,457</u>	<u>\$4,822,216</u>



Malartic
Hygrade
Gold Mines
(Canada) Ltd.

Liabilities

	<u>1977</u>	<u>1976</u>
Current		
Accounts payable and accrued liabilities	<u>\$ 37,897</u>	<u>\$ 35,215</u>
Convertible Income Debenture (Note 5).	<u>—</u>	<u>1,200,000</u>
	<u>37,897</u>	<u>1,235,215</u>

Shareholders' Equity

Capital Stock

Authorized

5,000,000 shares of no par value aggregate issue
consideration not to exceed \$15,000,000

Issued

3,441,687 shares (1976 2,841,687) (Note 6)

	<u>4,187,001</u>	<u>3,587,001</u>
Deficit.	<u>127,441</u>	<u>—</u>
	<u>4,059,560</u>	<u>3,587,001</u>
	<u>\$4,097,457</u>	<u>\$4,822,216</u>

APPROVED BY THE BOARD

_____ Director _____ Director

Statement of Deficit

For the year ended September 30, 1977

	<u>1977</u>
Deficit, Beginning of Year.	<u>\$ —</u>
Mining properties and licences written off	<u>1,003</u>
Write off of associated deferred expenditures	<u>126,438</u>
Deficit, End of Year.	<u>\$ 127,441</u>

Statement of Deferred Exploration, Development and Administrative Expenditures

For the Year ended September 30, 1977

	<u>1977</u>	<u>1976</u>
Exploration and Development		
Malartic Township		
Feasibility studies	\$ 3,254	\$ 17,711
Government fees and licences	759	1,238
Insurance and taxes	7,965	7,023
Mine salary and benefits	5,777	5,340
Surveying and drilling.	<u>49,592</u>	<u>19,631</u>
	67,347	50,943
 Dasserat Township		
Government fees and licences	—	60
Poirier Township		
Government fees and licences	—	310
Montbeillard Township		
Government fees and licences	—	28
	<u>67,347</u>	<u>51,341</u>
 Administration Expenses		
Accounting and audit fees.	5,607	2,807
Bank charges	2,098	630
Consulting fees	12,500	12,300
Directors' fees and expenses	13,171	7,581
General	8,052	5,024
Legal fees.	34,689	23,697
Legal — Incorporation and organization.	—	361
Office and telephone	16,585	11,278
Office rent.	6,954	12,115
Officers' salaries and allowances.	15,177	13,156
Printing and stationery	7,368	17,313
Transfer agent fees.	4,417	4,513
Travelling.	<u>4,566</u>	<u>6,198</u>
	131,184	116,973
Total Current Expenditures.	<u>198,531</u>	<u>168,314</u>
Less: Interest earned	82,275	96,894
Overhead recovery.	<u>430</u>	<u>7,751</u>
	82,705	104,645
Current Expenditures Before the Following:	115,826	63,669
Gain on sale of Government of Canada Bonds.	<u>23,550</u>	<u>—</u>
Net Current Expenditures	92,276	63,669
Deferred expenditures, Beginning of period	<u>858,108</u>	<u>794,439</u>
	950,384	858,108
Costs related to leases expired, charged to deficit (note 4).	<u>126,438</u>	<u>—</u>
Deferred expenditures, End of Period	<u>\$ 823,946</u>	<u>\$ 858,108</u>

Statement of Changes in Financial Position



Malartic
Hygrade
Gold Mines
(Canada) Ltd.

For the year ended September 30, 1977

	<u>1977</u>	<u>1976</u>
Working Capital Derived From		
Disposal of investments	\$ 683,112	\$ —
Issuance of no par value shares	600,000	—
	<u>1,283,112</u>	<u>—</u>
Working Capital applied to		
Operations	92,276	63,669
Purchase & cancellation of convertible income debenture	1,200,000	—
Acquisition of Malartic Township mining claims	—	8,500
Purchase of office equipment	—	2,508
Purchase of Government bonds	—	711,375
	<u>1,292,276</u>	<u>786,052</u>
Decrease in Working Capital	9,164	786,052
Working capital, beginning of year	19,847	805,899
Working Capital, end of year	\$ 10,683	\$ 19,847

Notes to the Financial Statements

September 30, 1977

1 — SIGNIFICANT ACCOUNTING POLICIES

(a) Investments

Investments are valued at cost.

(b) Fixed Assets

Fixed assets are recorded at cost. It has been the policy of the company and its predecessors to defer the recording of depreciation on their fixed assets until such assets are utilized in production since such charges would only form a non-cash addition to deferred exploration, development and administrative expenditures.

(c) Mining Properties and Licences and Deferred Expenditures.

Lease costs, claim costs, associated development costs and carrying costs are capitalized when incurred. When any lease expires, the cost of the lease plus any related deferred charges are written off to Deficit in the year of expiry.

2 — INVESTMENTS — GOVERNMENT OF CANADA BONDS

	<u>Par Value</u>		<u>Cost</u>		<u>Market Value</u>	
	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>
9½% due Feb 1, 1982	\$100,000	\$ 700,000	\$101,342	\$ 708,225	\$104,000	\$ 721,000
10% due Oct 1, 1995	225,000	300,000	228,021	304,250	242,000	309,000
	<u>\$325,000</u>	<u>\$1,000,000</u>	<u>\$329,363</u>	<u>\$1,012,475</u>	<u>\$346,000</u>	<u>\$1,030,000</u>

3 – FIXED ASSETS

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	
			<u>1977</u>	<u>1976</u>
Buildings, machinery and equipment	<u>\$1,137,068</u>	<u>\$ —</u>	<u>\$1,137,068</u>	<u>\$1,137,068</u>

These assets have been carried on the books of the corporation and its predecessor corporation since 1968 and prior.

An appraisal of the corporation's insurable assets performed by S. Farquharson, dated May 21, 1976, discloses the following valuations:

	<u>Present Value</u>	<u>Replacement Cost</u>
Building and equipment	\$ 265,000	\$ 442,000

No estimate is available as to the present value of the other fixed assets. Values of all the above assets are subject to the ability of the corporation to utilize them in production at some future time in their present location and state of repair.

4 – MINING PROPERTIES AND LICENCES

The company owns nine mining development licences covering a total of 1,350 acres in the township of Malartic in the Province of Quebec.

During the year the company allowed to lapse, two mining development licences in the township of Dasserat; six mining development licences in the township of Poirier; one mining development licence in the township of Montbeillard. Costs associated with the lapsed mining development licences have been charged to Deficit in the year.

5 – CONVERTIBLE INCOME DEBENTURE

The 9% convertible income debenture, due March 31, 1979, was purchased at par and cancelled.

6 – CAPITAL STOCK

During the year 600,000 fully-paid and non-assessable shares were issued for cash consideration of \$600,000 for which an interim certificate has been issued.

7 – CONTINGENT LIABILITY

A predecessor company has filed a writ in the Supreme Court of Ontario against Camflo Limited for damages and for an injunction preventing the defendant from trespassing on the lands of the company.

The solicitor for the company estimates that future legal fees and court costs will be approximately \$15,000.

8 – RECLASSIFICATION OF PRIOR YEARS FIGURES

Certain 1976 comparative figures are reclassified to conform with the financial statement presentation adopted for 1977.

